

Top Secret

(Security Classification)

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NATIONAL INTELLIGENCE DAILY CABLE

Thursday May 13, 1976 CI NIDC 76-113C



NATIONAL SECURITY INFORMATION

Unauthorized Disclosure Subject to Criminal Sanctions

State Dept. review completed

DIA review(s) completed.

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Approved For Release 2007/03/06 : CIA-RDP79T00975A028900010022-7

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National Intelligence Daily Cable for Thursday May 13, 1976.

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[REDACTED] The NID Cable is for the purpose of informing senior US officials.

LEBANON

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[REDACTED] Efforts in Lebanon to establish a cease-fire in the central mountainous region failed again yesterday as Christian forces battled for the fifth straight day to recapture leftist-held territory. The leftists have retaliated by gradually escalating the fighting in disputed areas of Beirut.

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[REDACTED] The Christians have made no significant advances in the mountains, and they engaged yesterday in artillery exchanges with leftist militiamen.

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[REDACTED] Although they have little hope of overcoming the leftists, Christian leaders apparently refuse to allow Syrian-controlled Palestine Liberation Army troops to enter their territory to create a buffer zone.

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Shamun Raises Tensions

Most Lebanese believe Shamun's nephew has been murdered and are afraid that the Christians may retaliate with atrocities similar to those of last December, which plunged the country into full-scale warfare.

Leftists' Statement

The statement issued Tuesday by the Muslim left coalition was, in fact, a relatively mild accounting of the leftists' bargaining position. This statement has been widely confused by the press with a separate one made by Kamal Jumblatt's own party, calling for the withdrawal of Syrian troops from Lebanon.

Jumblatt has rarely used his own party for policy statements since he gained leadership over the many factions that make up the leftist coalition, or so-called National Front.

The fact that the demand for a Syrian withdrawal came only from Jumblatt's own constituency may indicate that Damascus' campaign to co-opt Jumblatt's allies is making some headway.

CYPRUS

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[] US embassy and UN representatives in Nicosia report that the Turks are making life difficult for Greek Cypriots in the north with limitations on travel, inadequate educational and medical facilities, and restrictions on humanitarian visits by UN forces.

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[] Increasingly, the Turks are resorting to more overt forms of harassment and in many cases are reported to have given Greek Cypriots the choice of leaving voluntarily with their household effects or being forcibly expelled without them.

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[] UN officials estimate that there are some 7,800 Greek Cypriots left in the north, about half the number there at the end of hostilities in August 1974, and that the rate of expulsion is about 300 per month.

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PORTUGAL

25X1 [] Portuguese Army Chief of Staff General Ramalho Eanes has become the clear front-runner in the presidential election on June 27. Yesterday, Socialist Party leader Mario Soares announced his party's support of Eanes.

25X1 [] Eanes is now assured of the backing of the three major democratic parties as well as most members of the operational military, but he may yet face a stiff challenge from left-leaning Prime Minister Azevedo.

25X1 [] In announcing the Socialists' endorsement of Eanes, Soares said that although the Popular Democrats and the Social Democratic Center Party were backing the general, the Socialist Party had reached no agreement with either group and still intended to form a minority government. Soares also denied having extracted any promise from Eanes to back this move in exchange for Socialist support.

25X1 [] Eanes has delayed a formal announcement of his candidacy in order to sound out military colleagues concerning his
25X1 candidacy. []

25X1 [] Eanes has been reluctant to give up his present powerful position and his military career for the vagaries of elected office. He has expressed concern that efforts over the past few months to restore discipline and purge Communist sympathizers from the army could be undone if he leaves his post.

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[REDACTED] Meanwhile, Prime Minister Azevedo issued a communique on Monday refuting press reports that he is supporting Eanes. The communique, rejecting the idea of a single military candidate, indicated that Azevedo would probably announce his own candidacy within a few days.

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[REDACTED] An election contest between Eanes and Azevedo, a navy admiral, carries with it some risk of splitting the armed forces, but avoids the problem of having only one viable candidate. Both military and civilian leaders have been concerned that the presidential election would appear undemocratic if a military candidate ran unopposed.

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[REDACTED] Azevedo's challenge must be taken seriously in light of a recent opinion poll showing him to be much better known than Eanes, who has preferred to work quietly behind the scenes. With Eanes' imposing military and party support, however, he has a good chance of overcoming this disadvantage between now and the election.

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[REDACTED] The Communist Party has yet to endorse a candidate and may find Azevedo preferable to Eanes, although President Costa Gomes is probably the party's first choice among military leaders. Open Communist support for any candidate, however, would be more of a detriment than an advantage. [REDACTED]

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THAILAND

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[] The new Seni government in Thailand is already moving effectively to resolve potentially troublesome issues.

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[] Within days of winning a lopsided vote of confidence in the National Assembly, Prime Minister Seni announced a shake-up of the armed forces high command, a step that has

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won high praise from most senior military officers. Seni inherited an army leadership embittered by the efforts of Deputy Prime Minister Praman, when he was defense minister, to increase his influence by ignoring traditional promotion channels and appointing his own men to key positions.

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[] Seni has now pushed aside those generals loyal to Praman, and has not only strengthened his own position within the military, but at least temporarily has also weakened Praman's political base.

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[] Within the past week, Foreign Minister Phichai has signaled his intention to continue pursuit of an increasingly nationalistic Thai foreign policy.

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ETHIOPIA

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[] One of the Ethiopian ruling military council's key members and the chairman of its political subcommittee, Major Sisay Habte, has been in Eritrea since late April attempting to draw the secessionist rebels into negotiations.

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[] Meanwhile, the council hopes that its very obvious preparations for a massive military offensive against the rebels will induce them to begin talks. Barring such a development, the council intends to launch the offensive in an all-out effort to crush the insurgency.

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[] Sisay is apparently trying to arrange secret contacts with the military wing of the Popular Liberation Forces, one of the two major rebel factions. He is also holding talks with Eritrean civilian leaders, urging them to accept reconciliation with Addis Ababa.

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[] As part of Sisay's initiative, a committee of Eritrean elders has been formed, under government auspices, to facilitate communication between the traditional Eritrean leadership and the insurgents. The government hopes the elders will encourage the rebels to negotiate.

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[] Sisay is probably emphasizing the council's recently announced intention to grant substantial regional autonomy.

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[] The concessions offered under the government's general autonomy program are not likely to prove enough to get the guerrillas to negotiate. Some rebel leaders probably consider their goal of complete independence unobtainable, but would insist that Eritrea be treated as a special case and be granted considerably more autonomy than Addis Ababa is prepared to give other regions.

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[] A mutual lack of trust also dampens the prospect for talks, as do divisions within rebel ranks. No one can claim to speak for the entire rebel movement.

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[] Meanwhile, the government is continuing preparations for its military campaign, which is to be led by peasant volunteers. About 450 trucks left Addis Ababa for Eritrea on May 9, some loaded with supplies, and others presumably to pick up volunteer fighters and additional supplies en route. Some elements of new military units have reportedly already reached Eritrea.

25X1 [] The military council decided on a major effort to end the insurgency because it is concerned Ethiopia may become involved in a conflict with Somalia during the next year or so over the French Territory of the Afars and Issas. The ruling group wants to free the troops now tied up in Eritrea for use on a possible Somali front.

25X1 [] The council might find itself with the worst of both worlds: an inconclusive situation in Eritrea, after the expenditure of further human and material resources, and greater weakness against Somali forces than against Eritrean ones.

25X1 [] //This would pose a serious threat to the council's survival. [] 25X1

FINLAND

25X1 [] Finnish Prime Minister Miettunen and his five-party coalition will resign today following the Communist Party's decision yesterday not to support the government on a proposed sales tax increase.

25X1 [] President Kekkonen may ask Miettunen to form a government without the Communists by retaining the Social Democrats, the Centrists, the Swedish People's Party, and the Liberals. Such an alliance still would have a majority in parliament, but the large Social Democratic Party may not cooperate because it is not enthusiastic about the tax proposal or about continuing after the Communist defection.

25X1 [] If a new election is to be avoided, the Social Democrats will have to be persuaded to go along or a new tax scheme will have to be drafted. [] 25X1

GOLD MARKETS

25X1 [] //Gold auctions by the International Monetary Fund, the first of which will be held June 2, will add to what is already a substantial glut on the gold market. The sales will boost the quantity of gold available to Free World markets by 13 to 17 percent annually over the amount marketed in 1975.//

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[] //As part of an agreement to help developing countries, the IMF will auction off 780 tons of gold over the next four years. The profits from the sales--the difference between the market price and \$42 per ounce--will be put into a trust fund for financing low-cost loans to the poorer nations.//

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[] //The sales come at a time when the demand for gold has slumped sharply. Free World industrial gold consumption, declining since 1971 in reaction to higher gold prices and the recession, fell to roughly 549 tons last year--a drop of 31 percent since 1971. The speculative demand for gold has also dropped because of moderating inflation, declining currency unrest, and improving real interest rates, as well as in anticipation of the gold auctions themselves.//

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[] //Gold supply in 1976 should total 1,200 to 1,500 tons, compared with an estimated 1,128 tons last year. The higher figure will prevail if South Africa realizes its goal of a 5-percent increase in production this year and the Soviets, faced with a possible \$5-billion hard-currency deficit, decide to increase their sales over last year's 147 tons.//

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[] //Even if the South Africans hold the line on sales and the Soviets decrease their sales by 50 tons, the 1976 gold supply will probably exceed the 1975 level by about 70 tons.//

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[] //A comparison of the estimated supply of gold in 1976 and the probable range of demand indicate a strong possibility of further decline in gold prices this year to below the present \$130 per ounce.//

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[] //If industrial and monetary demand for gold totals 600 to 700 tons this year, between 500 and 900 tons will have to be purchased by speculators. Even the lower end of the range of expenditures needed to hold the line at \$130 per ounce--\$2.2 billion to \$3.8 billion--is very high by historical standards.//

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[] //Speculative expenditures in 1974 and 1975 totaled \$2.8 billion and \$3.0 billion, respectively, but these purchases were due largely to rising inflation rates, a condition that no longer obtains. In 1972, when inflation rates were relatively low, only \$769 million was spent on speculative gold purchases.//

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[] //If gold prices fall, such developed countries as France, Switzerland, and possibly others may feel compelled to prop up prices by purchasing gold. We doubt that such token purchases would do much to buoy prices except in the very short term.//

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[] //Many countries, particularly those less developed ones that will benefit from the IMF sales, will probably seek a rescheduling of the sales if substantial downward pressure on prices develops. The IMF has some flexibility to reschedule the size and frequency of auctions within the four-year period. A decision to sell smaller quantities in the initial auctions would only delay most of the price impact. []

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USSR-YUGOSLAVIA

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[] //The Yugoslav military has been calling up reserves and engaging in other unusual activity during the past five days, according to the US defense attache in Belgrade.//

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[] //There are no signs of threatening military movements by neighboring countries and no evidence of domestic problems that would necessitate precautionary military measures. The activity thus seems to be a limited mobilization for training purposes.//

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[] In the past, Belgrade has reportedly called up reserves when it perceived increased great-power "pressures." We do not discount the possibility that Yugoslavia has now decided to flex its muscles to emphasize its intention to reject any Soviet overtures for closer military cooperation, in particular any request for increased naval access to Yugoslav ports.

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[] Today has been designated "internal security day," and the Yugoslavs are loudly proclaiming their ability to counter any form of domestic subversion. President Tito returns from Athens today; his party deputy, Stane Dolanc, is now in Bonn. []

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